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SUBJECT: TANZANIA ECONOMIC ROUND-UP MARCH 2009

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Government Regulates Fuel Prices

¶2. In January, Tanzania's Energy and Water Utilities Regulatory Authority (EWURA) imposed a price ceiling on gasoline in response to continued high prices in Tanzania relative to world prices. EWURA, which had not previously exercised its authority to regulate fuel prices, had threatened intervention since November of 2008, but took no decisive action until mid-January. EWURA based its decision on the belief that collusion in the marketplace was leading to artificially high prices and placing an inordinate cost burden on consumers. William Ngeleja, Minister of Energy and Minerals, said that the government was obliged to protect Tanzanian consumers. Additionally, many blame high fuel prices for increased inflation, which in late 2008 exceeded 10% for the first time in several years.

Some of our contacts also saw an ethnic angle to price setting, arguing that the GOT's action would have the effect of reducing profits for the Tanzanians of Indian origin who have a significant share of the petroleum industry.

¶3. One negative side effect of EWURA's action was a severe but short-lived fuel shortage in Dar es Salaam, just as the price regulation was to take effect. Of the various theories advanced to explain the shortage, the most plausible may be that consumers, fearing a shortage if distributors held their stocks rather than selling at the government price, panicked and increased their purchases beyond normal supply. The arrival of a tanker in Dar es Salaam port rapidly remedied the shortage, whose impact did not reach most of the country. Some distributors defied the government order to lower pump prices for a couple of days, but most have since cooperated and prices have fallen by about fifteen percent.

¶4. GOT willingness to intervene in the oil marketplace does not send a positive signal to outside investors. While it is likely that collusion did occur at some level, high barriers to entry in Tanzania's petroleum sector make it less likely that competitive pressures are going to influence pricing at the same rate as the world market.

Tanzania Re-introduces Pre-Inspection of Goods

¶5. The Tanzania Bureau of Standards (TBS) has announced plans to

re-introduce a pre-inspection system for imports, which was discontinued in 2003. TBS Marketing Manager Daudi Mbaga said the Bureau was in the final stages of establishing Pre-Shipment Verification of Conformity of Standards (PVoC), in an effort to curb the influx of counterfeit and poor quality goods. TBS blamed counterfeits for huge losses in government revenue, employment, as well as profitability and performance of the manufacturing sector.

Cotton Industry Hit by Global Economic Woes

¶ 16. The cotton sector is among the first in Tanzania to be affected by the global economic situation. With world prices down by nearly half and buyers scarce, as of mid-January 240,000 bales from the 2008 crop awaited sale. In response, the Government, in partnership with farmers in the cotton industry, set up two committees to resolve market challenges facing the cotton industry.

¶ 17. Speaking to a journalist in Dar es Salaam at the end of a one-day meeting of local buyers, exporters and farmer's representatives in the country, Trade Minister Mary Nagu cited the main challenges facing the sector as the need to develop cotton production beyond the smallholder level and modernizing production. One stakeholder, Mr. Gulam Dewji, suggested a review of taxation and duties currently imposed on cotton to enable local cotton dealers to compete with imports more effectively.

Another global impact: Tanzania's Leather Industry

¶ 18. The Chairman of the Leather Association of Tanzania, Elbariki Mmari, said that exporters of raw hides and skins in the country are feeling the pinch of the global economic turmoil as export orders

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have dropped to by 45 percent compared to six months prior. According to the Ministry of Livestock Development and Fisheries, the 500 million skins sold in the 2007-08 financial year generated approximately Tsh 21 billion (USD 16.2 million), but both sales and earnings will decrease substantially this year, with price declines of seventy percent. Tanzania mainly exports unprocessed hides to China and thus does not benefit from the added value of leather processing.

Tanzania Prepares for Underwater Fiber-Optic Cable

¶ 19. Construction on a landing station for the Seacom undersea fiber-optic cable has begun just outside of Dar es Salaam. The 15,000km, USD 650 million, cable is 76 percent African owned and is expected to significantly boost communications in the region - eventually linking countries from Southern and East Africa to international broadband networks. Seacom has already laid cable from South Africa to Mozambique and from Egypt to the coast of Yemen. A third segment is being deployed from India towards Africa, where the three segments will meet. Simultaneously, Seacom is constructing landing stations for connections to inland networks. Seacom Tanzania official Anna Kahama-Rupia projected completion of the Tanzania station by April, with the network running by June ¶ 2009.

¶ 10. Currently, satellite access in Tanzania costs three times the projected cost of the fiber optic network. The launch of the Seacom network will mean significantly more bandwidth - and therefore increased access to information and communications - at lower cost, reducing costs of doing business and providing new opportunities in various sectors.

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